

RatingsDirect®

Summary:

Woodstock, Illinois; General Obligation

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Credit Profile

US\$1.83 mil GO wtrwks and swg rfdg bnds (alternate rev source) ser 2016 due 01/01/2028

Long Term Rating

AA/Stable

New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to the city of Woodstock, Ill.'s series 2016 general obligation (GO) waterworks and sewerage refunding bonds (alternate revenue source). At the same time, we affirmed our existing 'AA' ratings on the city's outstanding GO debt. The outlook is stable.

Officials will use bond proceeds to advance refund a portion of the city's series 2008A GO waterworks and sewerage bonds (alternate revenue source) for interest cost savings. The bonds are secured by net revenues of the city's waterworks and sewerage utility, the city's distributive share of proceeds from the state of Illinois' income taxes, and by the city's distributive share of retailer's occupation and use taxes. To the extent these pledged revenues are insufficient, the bonds are secured by an ad valorem property tax against all taxable property in the city without limit on the rate or amount. We rate the bonds to the GO pledge. Per the bond ordinance, the city will abate the ad valorem tax levy only if other pledged revenues are on hand and have been irrevocably deposited in the bond fund to pay principal and interest. We rate a number of the city's GO alternate revenue source bonds. In each case, we rate to the city's GO pledge and, in each case, pledged revenues must be deposited to the bond fund for each series prior to the ad valorem property tax abatement.

The 'AA' rating reflects our view of the city's:

- Adequate economy, with projected per capita effective buying income at 95.2% and a market value per capita of \$51,457, that is gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2015, which closed with balanced operating results in the general fund, but a slight operating deficit at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 33% of operating expenditures;
- Very strong liquidity, with total government available cash at 45.7% of total governmental fund expenditures and 5.8x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 7.8% of expenditures and net direct debt that is 64.3% of total governmental fund revenue, as well as rapid amortization, with 96.7% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Woodstock's economy adequate. The city, with an estimated population of 24,715, is located in McHenry County in the Chicago-Naperville-Elgin MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 95.2% of the national level and per capita market value of \$51,457. The county unemployment rate was 5.3% in 2015.

Woodstock is the county seat of McHenry County and is located about 50 miles northwest of Chicago, 35 miles east of Rockford, and 70 miles southwest of Milwaukee, Wis. Residents have access to employment in downtown Chicago via the Metra commuter train, which has a stop in the city. Interstate 90, connecting Rockford to downtown Chicago, is also about 15 miles south of Woodstock and is easily accessible via Illinois Route 47, providing access to Chicago, Rockford, and Chicago's northwest suburbs. The city itself is home to a relatively sizeable employment base with top employers in government, health care, and manufacturing. The city's five leading employers include the McHenry County Government (employing 1,400), Woodstock School District #200 (1,131), Centegra Health Systems (1,111), Catalent Inc. (respirator and eye care products, 830), and Claussen Pickle Company Inc. (food manufacturing and processing, 325).

Not unlike other municipalities in the region, Woodstock had a prolonged contraction in its tax base in the aftermath of the Great Recession and has only recently begun to recover. From 2011 to 2014, the city's equalized assessed valuation (EAV) fell by 25% overall to a low of \$413.8 million in 2014. With residential values stabilizing, the city's EAV grew by 1.3% in 2015 to \$419.1 million. City officials report that steady growth in new construction and economic development activity, including the establishment of an enterprise zone in the city earlier this year, should contribute to growth in 2016 and beyond. The city's 2015 EAV was comprised mainly of residential properties at 71% of total EAV, with commercial and industrial properties accounting for 21% and 7%.

We understand that the city will be conducting a special census this fall to determine if it meets the minimum population threshold needed to attain home-rule status. Under Illinois law, municipalities need at least 25,000 residents to achieve home rule designation, which, among other things, confers broad revenue-raising flexibility and access to additional state-shared revenue. The city's most recent decennial census population of 24,770 was only 230 residents shy of the requisite 25,000.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Highlights to the FMA include:

- Well-grounded assumptions and projections reflected in the annual budget, which is built using trend analysis and incorporates data from independent sources where possible;
- Quarterly budget-to-actual reporting to the city council throughout the fiscal year, with budget amendments as needed;
- An exhaustive, rolling five-year capital improvement plan that includes detail on specific projects and identifies funding for the plan;
- A council-adopted investment policy with quarterly reporting to the council on investment holdings;

- A basic debt management policy; and
- A formal fund balance policy requiring a minimum unappropriated general fund balance equal to 33% (120 days) of general corporate fund budgeted expenditures for cash flow purposes.

The city does not have a long-term financial plan.

Strong budgetary performance

Woodstock's budgetary performance is strong in our opinion. The city had balanced operating results in the general fund of negative 0.4% of expenditures, but a slight deficit result across all governmental funds of negative 1.4% in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could improve from 2015 results in the near term.

The city reports its finances on the basis of a fiscal year ending April 30th and on a modified accrual basis of accounting. The city reports its public safety functions in a police protection fund that is separated from the general fund in its financial statements, though we have combined this fund with the general fund in our analysis. We have also adjusted combined revenues and expenditures to account for routine transfer activity and total governmental fund expenditures to account for elevated capital spending in fiscal 2015.

Fiscal 2016 unaudited results show essentially break-even operations in the combined general and police funds, reflecting healthy sales and income tax performance and lower-than-budgeted expenses. We understand that the city also had a surplus across all governmental funds. The 2017 budget for the general and police funds calls for a minimal increase in expenditures from prior years and shows a small deficit of less than 1% of budgeted expenditures. Key general and police fund revenue sources (based on 2015 audited numbers) have grown in recent years and include property taxes, which account for about 32% of adjusted revenues between the two funds, followed by sales taxes (27%), and intergovernmental aid (23%). Given the city's record of consistently strong budgetary performance, with most years showing results at or close to breakeven, and given growth in the city tax base and area economy, we expect the city's budgetary results to remain consistently strong.

Very strong budgetary flexibility

Woodstock's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 33% of operating expenditures, or \$4.5 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Given that we expect strong operating performance over the next few years, we anticipate reserves remaining very strong and likely in excess of 30% of combined general and police fund expenditures. We note that the city has a formal reserve policy that requires it to keep a minimum unappropriated general fund balance equal to 33% (120 days) of general corporate fund budgeted expenditures and that the city has historically adhered to this policy.

Very strong liquidity

In our opinion, Woodstock's liquidity is very strong, with total government available cash at 45.7% of total governmental fund expenditures and 5.8x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary. The city has frequently issued GO alternate revenue source bonds in recent years, which supports our view that the city has strong access to capital markets for external liquidity if needed. Overall cash and investments across primary government totaled \$10.1 million at fiscal 2015 year-end, and we expect its cash position

to remain stable. The city has no exposure to alternative financing or variable rate debt.

Strong debt and contingent liability profile

In our view, Woodstock's debt and contingent liability profile is strong. Total governmental fund debt service is 7.8% of total governmental fund expenditures, and net direct debt is 64.3% of total governmental fund revenue.

Approximately 96.7% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor. We understand the city has no additional debt plans at this time.

Woodstock's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 9% of total governmental fund expenditures in 2015. Of that amount, 8.4% represented required contributions to pension obligations, and 0.6% represented OPEB payments. The city made 101% of its annual required pension contribution in 2015.

The city funded, at the very least, its required contribution to its pension plans in recent years. Woodstock contributes to three defined-benefit pension plans. Two of the plans are provided by the Illinois Municipal Retirement Fund (IMRF), an agent, multiple-employer public employee retirement system. While the third plan, the city's police plan, is a single-employer plan. As of the Dec. 31, 2014, valuation date, the IMRF plan for regular employees was 70% funded with a \$5.9 million unfunded liability and the law enforcement plan 99% funded with a \$3,116 unfunded liability. As of April 30, 2015, the police plan was only 58% funded with a \$13.4 million net pension liability. The city also sponsors a single-employer defined-benefit plan for other post-employment health benefits that it funds on a pay-as-you go basis and that was 0% funded with a \$1.3 million unfunded liability as of April 30, 2014. At about 9% of governmental fund expenditures in fiscal 2015, we do not presently consider the city's fixed costs related to pensions and OPEB a pronounced budgetary burden. We note, however, that required contributions have risen in recent years, and we could make an adjustment to the city's debt scoring in future years if costs continue to escalate in a manner that suggests that they will approach or exceed 10% of governmental fund expenditures on an ongoing basis.

Strong institutional framework

The institutional framework score for Illinois non-home rule cities and villages subject to the Property Tax Extension Limitation Law is strong.

Outlook

The stable outlook reflects our view of the city's very strong reserves and strong budgetary performance, as well as our expectation that these factors are not likely to change. The stable outlook is further supported by the city's market value and other indicators of economic strength beginning to pick up again, following multiple years of decline or sluggish growth after the Great Recession, which we believe will support the city's credit quality at the present rating in the coming few years. Given these factors, we do not expect to change the rating in the two-year outlook horizon.

Upside scenario

We could raise the rating with improvements in the city's economic characteristics, particularly its projected per capita EBI and its per capita market value, such that they were comparable to those of more highly rated peers.

Downside scenario

We could lower the rating if the city's economic characteristics were to significantly weaken to levels inconsistent with similarly rating peers, or if the city's debt and pension profile were to significantly weaken.

Related Research

- U.S. State And Local Government Credit Conditions Forecast, July 27, 2016
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of September 6, 2016)

Woodstock GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Woodstock GO rfdg bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Woodstock GO rfdg bnds (alternate rev source)		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Woodstock GO rfdg bnds (alternate rev source) ser 2013D due 01/01/2025		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Woodstock GO rfdg bnds (alternate rev source) ser 2014 dtd 06/18/2014 due 01/01/2016-2025		
<i>Long Term Rating</i>	AA/Stable	Affirmed

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